


Financial Standard

Subject Capital Assets		Number 18XX
Prior Revision Date February 11, 2014	Current Revision Date October 17, 2014	 Alan L. Bott, Church Controller

1. PURPOSE

- 1.1. This financial standard provides guidance for the safeguarding, capitalization, depreciation, transfer, impairment, and disposal of capital assets, including capital leases. This standard also addresses the physical counting and safeguarding of controlled assets not capitalized.

2. DEFINITIONS

- 2.1. The [Financial Standards Glossary](#) can be accessed via this link.

3. STANDARDS

*Person/Group
Responsible*

- 3.1. This standard is based primarily on established pronouncements from authoritative bodies, such as the Financial Accounting Standards Board of the Financial Accounting Foundation in the United States. As with all Church financial standards, local regulatory requirements prevail if in conflict with these standards, and controllers are responsible to ensure compliance with local requirements. *Local controller*
- 3.2. Accounting for fixed assets is a complex area that requires sound judgment. Controllers work closely with operating management so that when judgment is needed to apply proper accounting treatment, those best able to provide that judgment do so. For example, as physical facilities annual plans are prepared, this is probably the best time for upper management and controllers to determine which projects, if approved, will be capitalized when completed. *Local controller*
- 3.3. Real property and other capital asset purchases are made without debt financing except as approved by the Budget and Appropriations Committee. *Local controller*
- 3.4. Capital assets are properly safeguarded from damage, impairment, theft, or misappropriation. *Asset steward*
- 3.5. Tangible and intangible assets are capitalized if they provide present or future service potential to the Church, have a useful life greater than one year, and meet the Church's capitalization threshold for the asset type. *Local controller*
- 3.6. Capital assets are recorded at historical cost. Historical cost includes the vendor's invoice, initial installation costs (excluding in-house labor), modifications, attachments, accessories, or apparatus necessary to make the asset usable and render *Local controller*

it into service. Historical cost also includes ancillary charges (such as freight and transportation charges), site preparation costs, and professional fees. Capital asset costs are not marked up to reflect appraisal, market, or current values that are greater than historical cost.

- 3.7. If the new acquisition is purchased in part by trading in the old asset, the carrying value of the new asset is the cost plus amounts mentioned in the previous paragraph reduced by any gain from trading in the old asset. Any loss on trading in the old asset is recorded as a loss expense and does not affect the asset carrying value *Local controller*

- 3.8. Donated real property, if accepted for receipt by the Church Gift Review Committee, is recorded at its fair value on the date title is recorded and is an increase to donation revenue. Donated real property to be used for Church operations is classified as a capital asset. *Gift Review Committee*

- 3.9. **Capitalization Threshold**—Assets are not capitalized unless their cost meets or exceeds the established threshold for the asset type as follows: *Local controller,*

<u>Asset Type</u>	<u>Threshold</u>	<i>GSC Asset Management</i>
• Land	Capitalize all	
• Land improvements	\$10,000	
• Buildings	\$10,000	
• Building improvements	\$10,000	
• Leasehold improvements	\$10,000	
• Vehicles	\$10,000	
• Equipment and furnishings	\$10,000	
• Purchased software	\$10,000	
• Works of art and historic treasures – special collection	Not capitalized	

- 3.10. **Capital Asset Type**—Capital assets are categorized into the following types:

- 3.10.1. **Land**—Land is characterized as having an inexhaustible life. All expenditures made to acquire land and to ready it for its intended use should be considered as part of the land cost. Land costs are not directly related to a building construction project. Examples of expenditures to be capitalized as land: *Local controller*
- Purchase price or, if donated, fair market value at time of donation
 - Commissions
 - Professional fees (e.g., title searches, architect, legal, engineering, appraisal, surveying, environmental assessments)
 - Permanent landscaping (e.g., land clearing, excavation, fill, grading, drainage, moving earth in preparation for water impoundment)
 - Demolition of existing buildings and improvements (less salvage)

- Removal, relocation, or reconstruction of property of others on the land so that the land may be used differently (e.g., railroad, telephone, and power lines)
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells including initial cost for drilling, the pump, and its casing
- Right-of-way

3.10.2. **Land Improvements**—Land improvements are defined as having finite lives so are recorded separately from land and depreciated over their estimated useful lives. Examples of expenditures to be capitalized as land improvements: *Local controller*

- Fencing and gates
- Landscaping of non-temporary nature
- Parking lots, driveways, parking barriers, roadway
- Outside sprinkler systems
- Recreation areas, athletic fields, bleachers
- Paths and trails
- Septic systems
- Fountains
- Plazas and pavilions
- Retaining walls
- Lighting systems
- Water impoundment structures or attachments (e.g., dam, liner, other water control structures)

3.10.3. **Buildings and Building Improvements**—Costs directly related to the acquisition or construction of a building or building improvements (as further defined in paragraph 3.7.11) are capitalized. Direct costs include materials, labor, and direct overhead costs such as professional fees and permits. Indirect costs such as administrative labor (e.g., project manager) and travel may be capitalized if the costs are associated with the building and can be consistently allocated to the project. *Local controller*

3.10.4. **Leasehold Improvements**—Leasehold improvements include building improvements and furnishings permanently attached to leased real property that cannot be removed without damage to the property. These expenditures are capitalized if they meet the Church's capitalization threshold and are amortized over the term of the lease. *Local controller*

3.10.5. **Vehicles**—A vehicle is a fixed asset that can move itself under its own power. Cars and trucks are classified as vehicles. *Local controller*

3.10.6. **Equipment and Furnishings**—Equipment costs include the purchase price, taxes, freight, handling, assembly, installation, and any other expenditure necessary to prepare the equipment for use. The initial complement of *Local controller*

equipment for new buildings is capitalized. Equipment purchased subsequent to the original acquisition, construction, or capital lease of a building is capitalized only if the equipment meets the Church's capitalization threshold and represents a major replacement of the building's original complement of equipment.

Furniture costs are capitalized when purchased. The initial complement of furnishings for new buildings is capitalized. Furnishings purchased subsequent to the original acquisition, construction, or capital lease of a building are capitalized only if they meet the Church's capitalization threshold and represent a major replacement of the building's original complement of furnishings. Furnishings are capitalized separately from other capital assets of the same project (i.e., furnishing assets are capitalized as "furnishings" not as "building").

- 3.10.7. **Capital Leases**—Operating leases and capital leases are accounted for differently¹. At the inception of a lease contract, if a lease meets at least one of the four following criteria it is classified as a capital lease. All other leases are considered operating leases and costs are expensed over the lease term.

Local controller

3.10.7.1. Capitalization criteria are:

- 3.10.7.1.1. Ownership of the leased asset transfers to the lessee at the end of the lease term.
- 3.10.7.1.2. The lease contract contains a bargain purchase option. A bargain purchase option is a provision allowing the lessee, at the lessee's option, to purchase the leased property for a price that is sufficiently lower than the expected fair value of the property at the date the option becomes exercisable and exercise of the option appears, at the inception of the lease, to be reasonably assured.
- 3.10.7.1.3. The lease term is equal to 75 percent or more of the remaining estimated economic life of the lease property.
- 3.10.7.1.4. At the beginning of the lease term, the present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased property. The discount rate used for the present value calculation is the borrowing rate (as determined by Treasury Services) the Church would have incurred to purchase the leased asset.

¹ See ASC 840-30-3

3.10.7.2. The capital lease asset is recorded at the lesser of (1) fair value of the asset or (2) present value of minimum lease payments during the lease term². The accounting for assets under capital lease is no different than the accounting for assets acquired using other means of financing. Use the appropriate asset account according to the category of asset acquired (e.g., building, equipment). Contact Controllership Services Division for accounting assistance when recording a capital lease.

3.10.8. **Intangible Assets**—Intangible asset costs include acquisition and other expenditures necessary to make the asset ready for its intended use. The Church capitalizes only the following intangible assets: water and mineral rights, licenses, and purchased software. Trademarks, trade names, copyrights, patents, internally-developed software, and other intellectual property are not capitalized. *Local controller*

3.10.9. **Works of Art and Historic Treasures**—Works of art, historic treasures, and similar items that meet the definition of special collections are not capitalized. Contributed items are recognized as donation revenue if the items are capitalized; no revenue is recognized if the items are not capitalized³. *Local controller*

3.10.10. **Capital Assets Held for Sale**—Capital assets are classified as held for sale when all the following conditions are met: *Local controller*

- The asset steward commits to a plan to sell the asset.
- The asset is available for immediate sale in its present condition.
- The asset is being marketed for sale and an active program to locate a buyer has been initiated.
- The sale of the asset is probable and likely to occur within one year.

3.10.10.1. Capital assets held for sale are written down to fair value less expected costs to sell. Assets are not depreciated while classified as held for sale. Capital assets held for sale are not presented as “property and equipment” in the statement of financial position.

3.10.11. **Replacements and Improvements (R&I)**—Replacements are often for repairs or maintenance to an existing asset and usually are expensed. Improvements are often of a nature that would be capitalized. The following criteria should be helpful in determining whether to capitalize a project if it meets the capitalization threshold and one of the following criteria: *Local controller*

- Constructs additional square footage/meters of asset
- Extends the service life of the underlying asset beyond the original asset life. Examples of R&I project expenditures that extend the service life of a building and thus qualify for capitalization include the following:

² See ASC 840-30-3

³ see ASC 958-605-25-18 and 19

- Complete roof replacement
- Mechanical systems (e.g., HVAC/boilers, air handlers) replacement affecting more than 50 percent of the building
- Seismic structural upgrades
- Structural improvements
- Demolition and reconstruction of more than 50 percent of interior space

All other R&I projects not meeting the criteria above are expensed as incurred. If an R&I project is not specifically included in the above examples and there is a question about whether to capitalize it, the respective Church controller representative may be consulted.

3.11. **Maintenance**—Ordinary repairs that simply maintain capital assets in their normal operating condition without increasing the asset's service life or asset's value are expensed as incurred. The following are examples of expenditures *not* to be capitalized as building improvements. Instead, these items are recorded as repair and maintenance expense:

Local controller

- R&I projects not meeting the capitalization criteria defined in paragraph 3.7.11, including:
 - Maintenance-type interior renovation (e.g., repainting, touch-up plastering, replacing carpet panels or tile, refinishing sinks or fixtures)
 - Maintenance-type exterior renovation (e.g., repainting; replacing deteriorated or damaged sections of stucco, siding, roof, or masonry)
- Interior decoration (e.g., draperies, blinds, curtain rods, wallpaper)
- Adding, removing and/or moving walls related to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning, pest extermination, or other periodic maintenance

3.12. Physical Count of Capital Assets and Controlled Assets

3.12.1. **Controlled Assets**—It is recommended that certain non-capitalized equipment be physically secured and tracked. As appropriate the local area or department maintains records and performs periodic counts of the following movable equipment:

Local controller

- Computer equipment
- Printers
- Cameras
- Copiers
- Audiovisual equipment

- All other mobile equipment
- Special collections

3.12.2. Physical counts are a key control for safeguarding assets. Physical counts help to maintain accurate asset records and strengthen the accountability of asset stewards.

Local controller

3.12.3. All capital and controlled assets are counted and compared to asset records at least once every three years on a cyclical basis. For example, each year approximately one-third of all assets are counted. Asset records (i.e., general and subsidiary ledgers) are adjusted for differences between physical counts and recorded data. Controllers communicate these differences to the Global Service Center, who maintains the main subsidiary ledger, or others as appropriate.

Local controller, asset steward

Differences between “tracked” or “controlled” assets physical counts and recorded amounts are adjusted to the local area or department “controlled asset” records. All adjustments for differences are subject to write-off standards. (*Financial Standard 6415 Write-Offs, Write-Downs and Error Corrections*)

3.13. Depreciation and Amortization

3.13.1. Depreciation and amortization of capitalized costs, less residual value, are computed and recorded using the straight-line method beginning on the first day of the month the capital asset is placed in service. Salvage values, if deemed appropriate, are based on the estimated value of the asset at the end of its depreciable life. Depreciable lives are as follows:

Local controller, GSC Asset Management

- | | |
|---|-------------|
| • Land improvements | 10 years |
| • Buildings | 20–40 years |
| • Building additions, replacements and improvements | 20 years |
| • Leasehold improvements | Lease terms |
| • Vehicles | 4 years |
| • Computer hardware | 3 years |
| • Other equipment | 3–15 years |
| • Furnishings and fixtures | 10 years |
| • Software | 3–10 years |
| • Livestock | 4–8 years |
| • Orchards, crops, vineyards | 3–35 years |

3.13.2. Intangible assets with indefinite useful lives are not depreciated but are analyzed annually for impairment. Intangible assets with finite lives are amortized over the term of their useful or legal lives, whichever is shorter.

Local controller

3.14. Transfers

- 3.14.1. Property is transferred between Church affiliates either by grant or sale/purchase at its book value on the transferor's books.

Local controller

3.15. Impairment

- 3.15.1. Certain events and circumstances may indicate impairment (loss of value) to a capital asset. Such events include significant damage to the asset, obsolescence, natural disasters, arson, vandalism, or an adverse change in the business or operating environment. In such instances, the asset steward evaluates any possible loss due to impairment. The amount of impairment (write-down) is equal to the amount that the asset's book value exceeds fair value.

Asset steward

- 3.15.2. Impairment adjustments require Church controller review and approval before being made to Church financial records.

Church controller

3.16. Sales and Disposals

- 3.16.1. Assets are sold or otherwise disposed of at fair value when they no longer serve the purpose for which they were acquired and there is no beneficial alternative Church use. Asset stewards are responsible for the timely recording of disposals of capital assets and controlled assets.

Local controller, asset steward

- 3.16.2. In order to calculate gain or loss on sale of assets, book value and proceeds need to be determined.

Local controller

- 3.16.2.1. Book value—Upon sale or disposal, the asset's cost and accumulated depreciation are written off.

GSC Asset Management

- 3.16.2.2. Proceeds—Costs incurred to prepare the capital asset for sale (e.g., commissions, reconditioning costs) are offset against proceeds from the sale. Proceeds less cost to sell equal net proceeds.

Local controller, GSC Asset Management

- 3.16.2.3. Net proceeds are compared with the book value of capital assets sold or disposed to calculate the gain or loss.

Local controller, GSC Asset Management

4. REFERENCES

- 4.1. Accounting Standards Codification (ASC) 958-605-25-18 and 19

- 4.2. Accounting Standards Codification (ASC) 840-30-3

4.3. Accounting Standards Codification (ASC) 350-40-20

5. EXHIBITS

(none)